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## What about the “Engine?”

The US economy expanded in the third quarter, reversing a year-long contraction of 3.8% for the world’s largest economy. It was the worst economic performance in seven decades. As for duration, the four consecutive quarterly declines were the longest since quarterly records began in 1947. But in the third quarter, the economy came roaring back with a 3.5% gain, well ahead of the 3.2% median forecast of economists surveyed by Bloomberg news.

The question on the minds of many economists and policy makers is whether the bounce can be sustained. The ‘cash-for-clunkers’ and housing incentives definitely had the desired impact, but sustainability is the question. Have the programs created lasting momentum in consumer spending and home purchases without additional government incentives and tax credits?

Today’s monthly report on consumer spending casts some doubt on recovery. The report showed that consumers spent less in September by .5% representing the first decline in five months. But we should be careful not to read too much into this one report. Consumers might be expected to pull back a bit after making major purchases like automobiles and new homes. Rising unemployment also adds significant drag to consumer enthusiasm to spend.

While the economy grew last quarter, it is not creating new jobs and may be months from doing so. It is a positive sign that the pace of layoffs is diminishing as the weekly initial jobless claims report is holding steady. The four-week average shows slight improvement by 20,000 fewer workers filing unemployment claims. But the headline number of unemployment remains at a 26-year high of 9.8% and is not expected to drop much below that level for several quarters. We believe that time will reveal that cash-for-clunkers, social security giveaways, and housing incentives will not result in meaningful job creation in this economy.

US Small businesses are responsible for 65% to 75% of new job growth in this country. If this is true, why has this segment been largely ignored by policy makers until recently? An October 13<sup>th</sup> survey by the Washington-based National Federation of Independent Business reveals that small businesses plan to keep reducing payrolls and inventories over the next three months as their expectations for sales continue to fall. As William Dunkelberg, the group’s chief economist puts it, “the ‘job-generating machine’ is still in reverse.”

In his weekly radio address President Obama called small businesses the “engine” of the US economy and said too many are still struggling to get the credit they need to operate. He called on the nation’s banks, supported by taxpayers in the economic crisis “to stand by the creditworthy small businesses,” saying “it’s time for those banks to fulfill their responsibility to help ensure a wider recovery. We’re going to take every appropriate step to encourage them to meet those responsibilities.” Mr. President, haven’t the banks had **enough encouragement?**

This week the President announced measures to open up credit for small business, such as capital injections for community banks to spur lending. Obama asked Congress to raise the limits for Small Business Administration loans from \$2 million to \$5 million and as much as \$5.5 million for manufacturing. "The goal here is to get credit where it's needed most -- to businesses that support families, sustain communities, and create the jobs that power our economy," Obama said.

He also put a plug in for his health-care overhaul plan saying he would allow small businesses to buy insurance for employees through exchanges that may offer better coverage at lower costs. The "crushing" costs of health-care are discouraging many entrepreneurs from even trying to start a business and causing others to cut benefits and jobs, or close their doors, Obama said.

If this administration truly wants to stimulate this economy, focus attention not on loans which further burden small businesses in a sub-par business environment; instead offer incentives to risk takers who create the jobs in this country. Lighten their load has you have done for the banks and automakers and defaulting homeowners. Trillions are being wasted on pork and bailing out automakers and bankers while the "engine" of our economy is largely ignored while increasingly being swamped with taxes, fees to cover Washington's spending spree.

If small businesses are to be "at the forefront of our recovery" as the President says, then the Congress should look at ways to cut their taxes and add incentives. Anyone in small business knows there is neither free lunch nor free healthcare. They know that they will be immediately burdened if Congress mandates health coverage for all employees. They also know that a trillion dollars in new government spending on healthcare means higher taxes for them.

Nearly all small businesses are Sub Chapter S Corporations; owners pay taxes on the income their businesses generate at their personal rate. Our tax structure is progressive, rates rise as income rises. In essence, as small businesses grow and create jobs, owners are penalized by our tax system. They are penalized even further under new policies.

As a presidential candidate, Mr. Obama promised he would increase the taxes for (*translated punish*) those making over \$250,000. This writer is confused. If the "engine for our economy is small business which should be at the forefront of our recovery and many who run them have business income on their tax returns above \$250,000, why does his policy focus on increasing their taxes and adding new burdens of insuring their employees? Why not instead look for ways to invigorate them, perhaps by lowering their taxes and reducing or eliminating the barriers to hiring new workers? Mr. President, you've given plenty of breaks - and money - to those who failed to run their businesses properly and to the 'clunkers' as well, how about giving that vitally important "engine" a break?

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